



**Quarterly Narrative Report (October 1, 2001-December 31, 2001)
Technical Assistance to the Bai Tushum Financial Foundation**

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This report presents the implementation status of the Cooperative Agreement 116-A-00-0100027-00 between USAID/CAR and ACDI/VOCA for the first quarter of the project, the period October 1, 2001 through December 31 2001. This period is also considered year one of the project. The Bai Tushum Financial Foundation (BTFF) continues to receive long-term technical assistance from ACDI/VOCA's long-term representative, Muhammad Junaid, and short-term assistance from ACDI/VOCA HQ staff and consultants (volunteer experts from the Farmer to Farmer program).

Loan Portfolio Performance

The BTFF continued to build a superior quality loan portfolio during the first quarter of the project. Through its three branches the Foundation disbursed 197 new loans with a current value of about US\$368,722 (ROE 47.70 soms = 1US\$). A summary of new loans disbursed during the quarter is presented in the table below:

Table 1: New loans disbursed October 1, 2001-December 31, 2001

	Chui	Osh	Jalalabad	Total for BTFF
Total Loan amount (\$US)	72,810	168,029	127,883	368,722
Crop production (\$US)	3,145	37,212	38,365	78,721
Livestock (\$US)	6,080	65,514	39,413	111,006
SME (\$US)	63,585	65,304	50,105	178,994
Number of loans (Total)	27	101	69	197
Crop production	1	27	23	51
Livestock	3	37	22	62
SME	23	37	24	84

During the quarter, the outstanding portfolio increased by 41 loans valued more than US\$83,000. This increase was an across-the-board phenomenon, but the southern region branches made up more than 80% of the portfolio increase. Reducing the loan losses, a main objective for any microfinance institution, was also accomplished. Over this period there were no additional loan losses during this period. As of 31 December, the Portfolio at Risk (PAR>30days) was at 7.5%, a ratio which is well within the international best practices for rural finance institutions. The following table presents the BTFF portfolio numbers and quality at a glance.

Table 2: BTFF Portfolio at a Glance

	Outstanding loans	Chui	Osh	Jalalabad	Total
September 30, 2001	Amount (\$US)	179,084	611,849	311,153	1,102,086
	Number	93	381	185	659
December 31, 2001	Amount (\$US)	211,090	630,081	344,115	1,185,286
	Number	98	398	204	700
	PAR	Chui	Osh	Jalalabad	Total
September 30, 2001	> 0 days	30.2%	3.5%	12.5%	10.6%
	> 30 days				9.1%
December 31, 2001	> 0 days	23.3%	5.8%	5.2%	8.4%
	> 30 days				7.5%

Management Information Systems (MIS)

One of the largest hurdles that BTFF faced after the merger of its independent credit programs was an inadequate MIS for the three branches. The consolidation of all program data required technical assistance on a day-to-day basis, and monitoring of the various performance indicators was difficult at the central level. Since September 2001, BTFF began developing an MIS that could standardize the collection and processing of information across the Foundation's branches. This MIS would include a loan tracking system and an accounting system.

The accounting software has been built following internationally accepted accounting standards, instructions from the Kyrgyz National Bank, and standards prescribed by CGAP and SEEP. The program is now complete and fully operational. The system consolidates the financial and portfolio activity of all three branches at the end of each day. The BTFF will continue to modify the system to produce requested reports, as needed.

During this period, the Foundation also developed and implemented a Loan Tracking System (LTS) in the branches. This system stores all the portfolio information in a uniform format that can then be analyzed by the BTFF head office. Through ACDI/VOCA technical assistance to the BTFF management, the Foundation is working to further develop the software and develop the various MIS reports required by ACDI/VOCA HQ, USAID, and other stakeholders. A complete version of the product and reports will be available by the end of June 2002.

Upon completion, the BTFF MIS will produce up-to-the-minute reports down to the branch level. Through training, the Foundation has developed MIS reports that provide an immediate assessment of the performance of branches, loan products, loan officers, and geographical areas. This also allows an immediate assessment of the status of each loan. Currently BTFF is developing a user manual for the end user of the MIS. On completion of this manual, training for the end users will be conducted.

Marketing – Impact Surveying and Promotion for the BTFF

Impact Survey. An impact survey was conducted this period to determine the impact of BTFF lending on employment creation in Kyrgyzstan. According to this survey, each loan of BTFF has resulted in creating (or maintaining) seven employment opportunities. On average, one employment opportunity is created for every \$US250 invested in the loan portfolio.

Website. The Foundation is currently developing an organization Web-site, which will help promote activities and deliver the Foundation's message to a larger number of customers, donors and other stakeholders. During the last quarter using cost saving techniques the BTFF prepared the design of the website. The final design and posting of the site scheduled for March 2002. ACDI/VOCA's web site coordinator and designer will provide HQ guidance to BTFF on the development and posting of the site on the World Wide Web.

Brochure. The first Bai Tushum brochure containing information about BTFF activities was published in October 2001. Follow on brochures and a company newsletter will be published on a regular basis. Newsletter preparation will be through a participatory process and the editor will seek ideas and input from the branch offices.

New Loan Products

During the last quarter the BTFF designed a new loan product for consumer loans, which is restricted to the staff members of the BTFF. This product was developed to invest the idle funds in a secure portfolio, as well as to provide an additional benefit to the employees, which will increase their commitment to the BTFF. These are fully secured long-term loans, priced at the inter bank lending rate, for purchase of household items and apartments. The loans are repaid through deductions from the employees' salaries. Investment in this portfolio will not exceed 3% of the total portfolio of the BTFF.

BTFF is considering leasing as a possible new product for the BTFF clients. It is hoped that after approval of new laws on microfinance and leasing and a thorough investigation into the potential market, it will be possible to introduce this loan product.

Internal Audit and Controls

BTFF has adopted a decentralized system of loan approval, disbursement, and monitoring. This has resulted in reducing the transaction time and cost for loan approval and disbursement, and enhancing the service standards. However, the decentralized systems require a high level of supervision and strong internal controls. To meet this challenge BTFF has adopted an effective internal control system, whereby all financial transactions in BTFF pass through a series of routine checks. All financial documents must bear two signatures, and loan revolving funds of the Foundation are jointly operated by the ACDI/VOCA Long-Term Technical Advisor and the General Manager of the Foundation.

The Foundation has adopted a zero tolerance policy for corrupt practices. To ensure this, integrity of the loan officers and staff members are highly valued at the time of their hiring and during staff evaluations, and the Foundation has adopted a credit committee system in the branches to avoid corrupt practices in loan disbursement. All loans are approved by the branch credit committees; though the loan officer is present at these meetings, he or she is not a part of the decision making.

All major financial transactions are routinely reviewed by the internal auditor who reports to the Supervisory Board of the Foundation. An Internal Control Manual has been developed and introduced throughout the organization. As part of this policy, the internal auditor reviewed all BTFF functional units during the last quarter. She reviewed all loan files disbursed during the quarter and visited a number of the borrowers for the physical checks. Findings were made available in a report which the Foundation's executive management is reviewing and formulating action. Currently, BTFF is also preparing an internal audit manual to circulate to the employees to give a clear understanding of the role of the internal auditor and the procedures that will be applied towards this.

Policies and Procedures. During this period, the BTFF finalized its underlying policies and procedures and published them in a manual distributed to each branch office. In this manual, the Foundation's lending policy and criteria for 2002 were presented. BTFF introduced a new pricing structure to respond to the market realities, to encourage higher repayment rates, and to build a high quality diverse loan portfolio. This also took into account the financial results of the BTFF as of 30 September 2001.

In order to encourage the loan officers and other staff members to accomplish the objectives of the Foundation, BTFF developed an incentive system based on the indicators for each loan officer. The incentive system is based on transparent criteria to encourage the build up of a high quality diverse loan portfolio, to increase loan repayment, to increase the Foundation's income and to reduce loan losses. On achievement of certain quality benchmarks, the loan

officer receives a percentage of the loan disbursement and repayments as incentive. For example a loan officer with 100 loans, and 98% repayment rate may receive about months salary as incentive.

External Audit

Under Kyrgyz law, BTFF is not required to receive an external audit. However, in order to maintain the transparency and the higher quality of the financial and management controls, the Foundation decided to have the internal controls and annual accounts audited by an outside, reputable bank auditing firm, *Jacob's Audit*. A scope of work was developed by the BTFF and reviewed by ACDI/VOCA technical staff during the quarter and the external auditors were hired. The auditors began work in December, and their final report is expected by next quarterly reporting period.

Microfinance Law

ACDI/VOCA's long-term advisor has been working with the National Bank of the Kyrgyz Republic, USAID, the President's Administration, and other stakeholders on the draft MFI law to ensure it supports international MFI best practices. ACDI/VOCA has represented the MFI sector at a working group that met to prepare recommendations on this law.

In December 2001, USAID/Bishkek and its partner MFIs organized a national forum to discuss issues pertaining to the draft MFI law with the National Bank of the Kyrgyz Republic staff. In his presentation, the long-term technical advisor analyzed the various aspects of the law and presented the industry's point of view. As a result of this forum the National Bank agreed to several improvements in the draft of MFI law, including an important provision that permits MFI's to on-lend borrowed funds, and to introduce simplified licensing procedures. Also, under the new law, MFI's are able to treat loan losses as an allowable expense.

ACDI/VOCA Europe and Asia Annual Meeting

In November 2001, the technical advisor and the BTFF general manager attended the ACDI/VOCA E&A annual meeting in Washington, DC. Traveling to DC also allowed the attendees to meet with various technical and administrative staff in the head office for debriefing and work sessions. The technical advisor presented the status of the project and received guidance on reporting and other matters from ACDI/VOCA senior management and technical services department.